

GUATEMALA





Guatemala is a country in Central America bordered by Mexico to the north and west, the Pacific Ocean to the southwest, Belize to the northeast, the Caribbean and Honduras to the east and El Salvador to the southeast.

Investment areas include agriculture, energy and mining, infrastructure, drawback and services.

Reasons to Invest in Guatemala

- It is the largest economy in Central America (37.5% of the total GDP).
- It offers access to 67.5 million people in the Mesoamerican market.
- Has a local market of 16 million citizens, 70% of them under the age of 30.
- Has the largest student population in Central America.
- Rated to be the 5th most open Latin American economy to direct foreign investment.
- Nontraditional products are those recently incorporated into the exportable supply of Guatemala. Includes six main groups: agricultural, apparel and textiles, manufacturing goods, seafood products, furniture and forestry, and handicrafts. Throughout the years, non-traditional exports outside the Central American area have shown a remarkable dynamism.
- A small country with key investment and development potential. Recent cluster analysis suggested opportunities in the following fields:
 - ✓ Agribusiness, fishery and forestry.
 - ✓ Textiles and apparel.
 - ✓ Tourism.
 - ✓ Medical research and development.
 - ✓ Electronic components and software.
 - ✓ Infrastructure and services.



Business Presence

- The main types of for-profit business structure in Guatemala are:
 - ✓ Corporation (Sociedad Anónima).
 - ✓ Limited liability companies.
 - ✓ Partnerships.
 - ✓ Registered branches of foreign companies and corporations.
- All companies, corporations and partnerships require a minimum of two shareholders or partners. In case of corporation (Sociedad Anónima), shares must be nominative.



Foreign Investments Restrictions and Conditions

- The Central Bank maintains the faculty to intervene in the exchange market, but only indirectly: purchasing and selling foreign exchange.
- All foreign currency transactions must be made through approved financial institutions. A form must be filled out for all transactions involving foreign investments, remittance of dividends and repatriation of capital.
- To increase the efficiency of the mechanisms through which Banco de Guatemala participates in the exchange market, some gradual modifications will be introduced to comply with the following principles to achieve a flexible exchange system:
 - ✓ That it be consistent with a monetary schedule of explicit inflation goals.
 - ✓ That it be based on rules that are clear, transparent and understandable in the markets.
 - ✓ That it eliminates the discretion of the participants of the Banco de Guatemala.
 - ✓ That it reduces the volatility of the exchange rate without affecting its trend.

Taxation System

- Guatemala's Constitution grants the power of taxation to the Congress of the Republic¹. This provides certainty that no other government body can impose tax burdens on the private sector.
 - ✓ Income Tax
 - Guatemala imposes a tax on all income derived in Guatemalan territory, include individuals or legal Entities or estates, domestic or foreign, resident or not in the country. Taxing income depends on your source that can be:
 - ✓ Profit or Revenue Activities
 - Regime Utilities: Rates: 31% in 2013, 28% in 2014 and 25% in 2015 onwards.
 - Optional Regime Income: Less than 5% GTQ 30,000.00 over GTQ 30,000.00 applies 7%.
 - ✓ Revenue Job
 - Under of applies GTQ 30,000.00 5% over GTQ 30,000.00 applies 7%.
 - ✓ Capital income and capital gains
 - Rate of 10% excluding dividends applies 5%.



- ¹Article 239 of the Political Constitution of the Republic of Guatemala



Value Added Tax

- The VAT standard rate is 12%², generally chargeable on³:
 - ✓ Supplies of goods made in Guatemala.
 - ✓ Supplies of services made in Guatemala.
 - ✓ The import of goods and certain services into Guatemala.
 - ✓ Leases.
 - ✓ First sale or exchange of Real Property.
 - ✓ Donation of movable property or real property.
- There are various transactions that are exempt for VAT purposes including:
 - ✓ Exports of goods and service.
 - ✓ Services provided by banks and financial institutions.
 - ✓ Contributions in kind. Will not be exempted when this one to be brought is all or part of a real estate which has been previously given to a society that works for the real estate performance.
 - ✓ Mergers.
 - ✓ The issue and transfer of shares, credit titles and any kind of security.
 - ✓ The transfer of goods under trust and the return of trusted goods to the settler.

• ²Article 10 of the VAT Law, Decree 27-92
 • ³Article 3 of the VAT Law, Decree 27-92
 • ⁴Article 4 of the Stamp Law, Decree 37-92



Stamp Tax

- Tax in documents containing the following acts and contracts:
 - ✓ Civil Contract and merchant contracts.
 - ✓ Documents issued abroad to take effect in the country.
 - ✓ Public or private documents for proof of payment with goods or sums of money.
 - ✓ Receipts issued by insurance or surety in respect of premiums paid or payments of bonds corresponding to policies of all kinds of insurance or bond.
 - ✓ Proof of payment or winnings from lotteries, raffles and drawings by private and public entities.
 - ✓ Documents proving or commissions to pay the state for tax collection, tax purchases of species and any commission established in law.
 - ✓ Receipts, payroll or other documents supporting the payment of dividends or profits, both in cash and in kind. Dividends are credited with coupons are also subject to the payment of the tax.
 - ✓ Second and subsequent sale or exchange of real estate.
- The 3%⁴ Stamp Tax applies to dividend payments and documents issued abroad and used locally as documentary evidence for transactions not subject to VAT.
- The tax is determined applying the rate to the value of the acts and contracts subjects to tax. The value is reflected on the document, which cannot be lower than the one registered in the public records, registrations, property registries or in the official listing.



Solidarity Tax

- There are exemptions to this tax applied to:
 - ✓ The institutions of the State, their decentralized or autonomous entities, and the municipalities and their enterprises, with the exception of the legal entities formed with mixed capital.
 - ✓ The universities and the private and public educational centers legally authorized to operate in the country.
 - ✓ The persons subject to this tax who are commencing business activities, during the first four quarters of operation.
 - ✓ The commercial and agricultural activities conducted by individual persons or legal entities that per a specific law or due to operating within the special regimes established by the Law of Promotion and Development of Export and Drawback Activities, Decree 29-89 and the Law of free Trade Zones, Decree 65-89, both of the Congress of the Republic, and their reforms are exempt from the payment of Income Tax, during the term of the exemption that they enjoy.
 - ✓ The individual persons or legal entities and the other entities that are subject to the Solidarity Tax who pay Income Tax according to the Simplified Optional Regime over income from lucrative activities of this tax (Decree 10-2012).
 - ✓ The taxpayers who as of the date on which the Solidarity Tax established in this Law went into effect incur in operational losses during two consecutive years. This exemption is solely applicable for the four tax periods following the second year in which the cited losses occurred.



- The tax basis for this tax is comprised of whichever is greater between:
 - ✓ One-fourth of the total net assets.
 - ✓ One-fourth of the gross income (taking as a basis the last Income Tax return).
- ✓ The tax period is quarterly and shall be calculated by calendar quarters.
- ✓ The tax rate for this tax is 1%.
- ✓ In cases of periods less than one quarter, the tax is determined in proportion to the number of days of the quarter that have transpired.
- ✓ The tax must be paid within the month immediately following the end of each calendar quarter, using the means that the Tax Administration has made available to the taxpayers for this purpose.



Real Estate Tax

- The taxable event is applied owning real estate within the Republic's territory. Rates are applied on the registered value of real estate in Quetzales (USD 1.00 = GTQ 7.80 approx.), as follows:
 - ✓ From 0 to GTQ 2,000 exempted.
 - ✓ From GTQ 2,001 to GTQ 20,000 2 per thousand annually.
 - ✓ From GTQ 20,001 to GTQ 70,000 6 per thousand annually.
 - ✓ From GTQ 70,000 and up 9 per thousand annually.
 - ✓ This tax is paid on a quarterly basis.



Tax on Financial Proceeds

- The tax is generated when a payment or credit is made for interest to resident individuals or entities other than those belonging to the local regulated banking and finance sector.
- Rate is 10% on gross interest to individual and legal entities domiciled in the country, except banks and other entities supervised by the Superintendence of Banks.
- Once this tax is paid, the tax payer is to report his interest income as exempt from income tax.

Incentive Law for the Development of Renewable Energy Projects

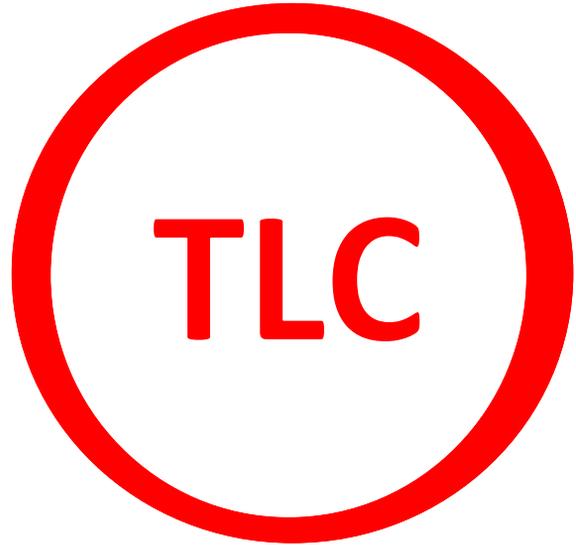
- Exemption on customs duties and VAT on the import of machinery and equipment to be used in the project. In this case the exemption should be authorized by the Tax Office.
- 10 year income tax exemption as of the starting date of the commercial operations.





Agency, Distribution or Representation Contracts

- If an individual decides to appoint an agent, distributor or representative for your products and/or services in Guatemala, it is recommended to contract a legal advisor for the preparation, negotiation and execution of a written contract. This contract should include:
 - ✓ Type of contract, i.e. agency, distribution or representation.
 - ✓ Term of contract with a possibility of extension.
 - ✓ Territory covered by the contract.
 - ✓ Is it exclusive or not.
 - ✓ Principal duties of the parties.
 - ✓ Remuneration of the agent, if any or sale price of the products or services to the distributor or representative.
 - ✓ A clause of the resolution of controversies, number of arbiters, entity in charge of arbitration, as well as procedures, language and location.



Benefits of the Free Trade Zones

- The Industrial or service Permit-Holders authorized to operate in the Free Trade Zones will enjoy the following tax incentives:
 - ✓ Equipment, machinery, tools, raw materials, inputs, semi elaborated products, containers, packaging and in general in goods used for production or the offering of services, are not subjects to taxes, custom duties and import charges.
 - ✓ Total income tax exemption on income obtained exclusively from the activity as an industrial Permit-Holder, for a period of ten years.
 - ✓ Exemption from the Value Added Tax, in the transfer of merchandise within and between Free Trade Zones.



Labor Relations

- Guatemala is a country with considerable human capital that offers attractive, high-quality and low-cost labor to local and foreign investors. In Guatemala labor relations are governed by the Political Constitution of the Republic, by the Labor Code, International Treaties and by several laws and regulations which rule different labor related areas.
- Other regulations have been implemented to formalize and improve labor relations to meet the needs of national and foreign investors, such as hourly work. Unfortunately no advance has been made to achieve a thorough labor reform, incorporating regulations that meet the needs of the growing population. In addition to the protection to the workers, regulations are still needed to promote recruitment and to improve economic activities which will result in an important growth of the economy.
- In the meantime, legislation is complemented by labor contracts and internal labor regulations which rule labor relations. Thus, it is important that all employers enforce clear policies and comply with present regulations.

Foreign Investment Law

- Promotes foreign investment and includes provisions that recognize and guarantee private property rights equally for Guatemalan nationals and foreign investors and establishes an equal treatment between domestic and foreign investors.
- Any foreign investor has equal legal conditions as domestic investors and this is a great incentive for foreign investors in Guatemala, given that not every country grants this.
- Foreign Investment Law recognizes the following rights for all foreign investor:
 - ✓ Private Property.
 - ✓ Expropriation, only for reasons of collective, social benefit or social interest can be proven.
 - ✓ Free trade.
 - ✓ Free access to foreign exchange.
 - ✓ Prohibition of confiscatory taxation and double taxation.



Government Procurement

- Government Procurement Law regulates all the agreements of sales, purchase, supplies of goods, construction and services between private suppliers and the governmental institutions, which includes all decentralized entities, municipalities and public corporations.
- The Government Procurement Law states three types of procurements:
 - ✓ Direct Sales or Contracts: these are executed with the State when the purchase is under thirty thousand quetzals (GTQ 30,000) approximately three thousand eight hundred fifty dollars (USD 3,850.00).
 - ✓ Request of Quotes: these are executed when the acquisitions are below nine hundred thousand quetzals (GTQ 900,000.00) or approximately one hundred fifteen thousand three hundred eighty five dollars (USD 115,385.00).
 - ✓ Public biddings are executed for acquisitions above nine hundred thousand quetzals (GTQ 900,000.00) or approximately one hundred fifteen thousand three hundred eighty five dollars (USD 115,385.00).



We at García & Bodán, are ready to help you in all of the process detailed before, with experience lawyers in investments matters, to solve all of your legal inquires.

For further information related to investment matters or any of the topics included on this document, please contact the following lawyers:



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